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Agenda Item 3b

December 12, 2011

TO: MEMBERS OF THE BOARD GOVERNANCE COMMITTEE

- I. **SUBJECT:** Board Governance Project – Governance Policy
- II. **PROGRAM:** Board Governance
- III. **RECOMMENDATION:** Approve proposed Governance Policy as a First Reading.
- IV. **ANALYSIS:**

As a result of the comprehensive Board Governance project led by the Board President, and based on the actions taken by the Board at the September and October 2011 meetings, staff is proposing a Governance Policy that sets forth an overall governance framework to guide the Board in fulfilling its fiduciary responsibilities. The proposed Governance Policy is intended to replace of the Board's Statement of Governance Principles.

The Board engaged Funston Advisory Services (FAS), with assistance of CalPERS' fiduciary counsel, Reinhart Boerner Van Deuren s.c., to develop a set of recommendations to improve the effectiveness of the Board by improving its oversight, clarifying accountability and improving decision-making.

At the conclusion of the project, the Board adopted governance changes in the following six areas: 1) Principles of Effective Governance, 2) Board Powers Reserved and Delegation of Authority, 3) Board Governance, 4) Board Self-Assessment, 5) Board Self-Development, and 6) Selected Policies Governing Board Conduct. Staff has begun implementing these changes through changes in the committee delegations, the Chief Executive Officer delegation, and the committee and board meeting agenda format and content. The proposed new Board Governance Policy complements these changes and will reflect the governance changes adopted by the Board pursuant to the Governance Project.

The proposed Governance Policy (Policy) is attached (Attachment 1). Written from scratch, it is intended to replace the existing Statement of Governance Principles. The Policy reflects the newly-adopted Principles of Effective Governance (paragraph III), the Powers Reserved of the Board itself (paragraph V), the standards for delegation of authority (paragraph VI), the governance roles of Board committees (paragraph VII), the Board President, Vice President and

Committee Chairs and Vice Chairs (paragraph VIII), and the executive officers (paragraph IX), board member responsibilities and conduct (paragraph X), and the Board Self-Assessment and Self-Development processes (paragraphs XI and XII). Finally, the Policy includes a separate section on "Avoidance of Conflicts of Interest." (Paragraph IV.)

The Board's existing Statement of Governance Principles is also attached (Attachment 2). The portions of the Statement of Governance Principles that were not carried over into the Policy are highlighted in the Attachment 2.

Staff recommends the Committee approve the proposed Governance Policy as a first reading.

V. RISKS:

Failure to improve perception of CalPERS by members, employers, legislators and other stakeholders through the adoption of a comprehensive governance policy such as the one proposed may erode trust, damage business relationships and opportunities, lead to recruitment and retention issues in the workforce, result in litigation, and prevent CalPERS from fulfilling its mission.

There are minimal risks associated with adoption of the proposed Governance Policy.

VI. STRATEGIC PLAN:

This item is not a specific product of either the Strategic or Annual Plans, but is part of the ongoing workload of the Executive Office.

VII. RESULTS/COSTS:

This project has required and will continue to require a significant time commitment by both executive staff and the Board members.

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General Counsel